

BEAVER COUNTY RETIREMENT SYSTEM



Investment Review Fourth Quarter 2008

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➤ "After the Collapse, Guarded Hope for '09"

– *Wall Street Journal, January 2, 2009*



CIM INVESTMENT MANAGEMENT, INC.

Investment Building, 239 Fourth Ave., Suite 1302, Pittsburgh, PA 15222

Beaver County Retirement System
County Courthouse
810 Third Street
Beaver, PA 15009

February 18, 2009

Dear Members of the Board:

Statistically, 2008 went into the record books as one of the worst years ever for US stocks, corporate bonds and residential real estate sales and prices. More importantly, perhaps, investors have seemingly lost confidence in the ability of financial market intermediaries (i.e., banks, insurance companies, etc.) to properly and appropriately manage credit and other risks. This loss of confidence is, in our estimation, the single greatest barrier to achieving some sense of normalcy with respect to credit spreads and, by extension, to a rally in stock prices. The good news is that the financial system is now coming to grips with credit problems and taking concrete steps to deal with these issues. This process of de-leveraging balance sheets, re-pricing assets, instituting new risk controls and evaluating credit standards will take several more months to play out. Ultimately, we believe that confidence will be restored.

Based on this analysis, we believe that stocks will rally once a convincing and palpable trend toward lower credit spreads has been firmly established. Decreasing spreads are a sign that risk is being fundamentally and not emotionally priced and that corporations have greater access to needed funds. Indeed, corporate bond spreads have tightened since their peak in November, but it is too early, in our judgment, to proclaim that a sustainable trend has been established.

We are, as always, monitoring market developments carefully. Our first priority is to preserve our clients' capital by focusing on diversification, risk controls such as sector and position limits and on high quality, liquid securities. As conditions warrant, we will position our clients' portfolios to take advantage of anticipated rallies in stock and bond markets. In particular, with respect to stocks, we are seeking opportune moments to increase equity allocations and/or add to cyclical sectors. With respect to bonds, we are seeking to add to spread sectors and to protect assets from a possible increase in interest rates later this year.

Yours very truly,

CIM INVESTMENT MANAGEMENT, INC.

Andrew C. Fisher
President

4th Quarter Recap and Outlook – September 30, 2008 to December 31, 2008

Recap

The bad news piled up during the 4th quarter of 2008 like a tsunami traveling through the shallows and then came crashing down on an already weakened global economy with devastating consequences for financial markets. The litany of woes in the U.S. included surging unemployment (now 6.7% and climbing), credit spreads not witnessed since the Great Depression, rising foreclosures and industrial giants like GM and Ford teetering on the verge of bankruptcy. Given this backdrop, our analysis suggests that U.S. GDP contracted by 4.0% or so during the last quarter of the year.

Predictably, equity markets, both in the U.S. and overseas, suffered staggering losses. The S&P 500 and EAFE stock indices lost 21.94% and 19.92%, respectively, during the quarter, bringing their YTD losses to 36.99% and 43.07%. Investment grade corporate bonds also suffered substantial losses during the first part of the quarter as spreads to treasuries soared to 600 b.p. or more. The Lehman Corporate Bond Index underperformed treasuries by 477 b.p. during the quarter. With respect to both stocks and bonds, cyclical sectors and industries generally suffered the most. Prices of equity and debt issued by those companies whose earnings are most sensitive to economic growth prospects witnessed the most losses. In particular, financial, energy, technology and industrial names performed poorly but less cyclical businesses such as telecommunications and staples fared relatively better.

The Federal Reserve reacted to this economic meltdown with aggressive policy actions including slashing the Fed Funds rate to 0.25% at its December 16th meeting. In addition, Fed Chairman Ben Bernanke has now created more than \$2 trillion of emergency lending programs using the Fed's balance sheet and money-creation authority. These programs include a commitment to buy \$600 billion of debt issued or backed by government chartered housing finance companies and a \$200 billion initiative to support consumer and small-business loans. The federal government is contemplating other measures as well such as a second very large stimulus plan and a plan to buy massive amounts of outstanding treasury notes and bonds.

Despite this rather gloomy backdrop, there were developments that offer hope for an economic recovery during 2009. Oil prices, after peaking near \$140/bbl. in July, tumbled to under \$40/bbl. by the end of the year. Furthermore, waning demand for other commodities pulled the CRB Index below 220 from a peak of 473. This sharp drop in a variety of industrial and agricultural commodities has begun to pull inflation down. The CPI Index has declined from a YOY rate of 5.6% in July to a 1.1% rate in November. This drastic drop in inflation triggered an unprecedented treasury bond rally during the quarter that took 2 yr. notes below 1.0% and 10 yr. notes to almost 2.0%. The concurrent drop in mortgage rates pulled 30 yr. fixed rate loans down near 5.0%.

Outlook

According to the National Bureau of Economic Research, the organization that dates economic cycles, the U.S. economy entered a recession near the end of 2007. The big question now for investors is, "How deep and how sharp?" The answer to this question has implications for asset allocation, sector and industry emphasis, duration, and credit profile among other variables. Although economic "visibility" at this point in the cycle is murky at best, our economic analysis points to a worse than average recession that will linger into the middle part of 2009 at the very least. This forecast is based on the trends in key economic data such as jobless claims, retail sales, industrial production and home sales. After falling 0.5% during the 3rd Q, we forecast that GDP will contract by 4.0% in the 4th Q of 2008 and by 2.0% during the 1st Q of 2009. In addition, the unemployment rate is likely to continue to rise, peaking near 8.0% toward the latter part of 2009.

Given this outlook, we continue to be biased toward maintaining a conservative portfolio. We are underweight equities within balanced accounts, continue to emphasize less cyclical stocks in general and have a high quality credit bias in fixed income portfolios. Despite our defensive strategy, however, we are also cognizant of the fact that markets are discounting mechanisms. Historically, the average recession has lasted 10 months, and, on average, the stock market has turned up about 5 months before the end of the recession. Assuming that the current recession will end by the end of 2009, it is logical,

based on precedent, to expect a stock market rally and treasury bond sell-off by the middle of the year. Therefore, we are seeking opportune moments to become more constructive on equities and corporate bonds and less sensitive to interest rates within client portfolios.

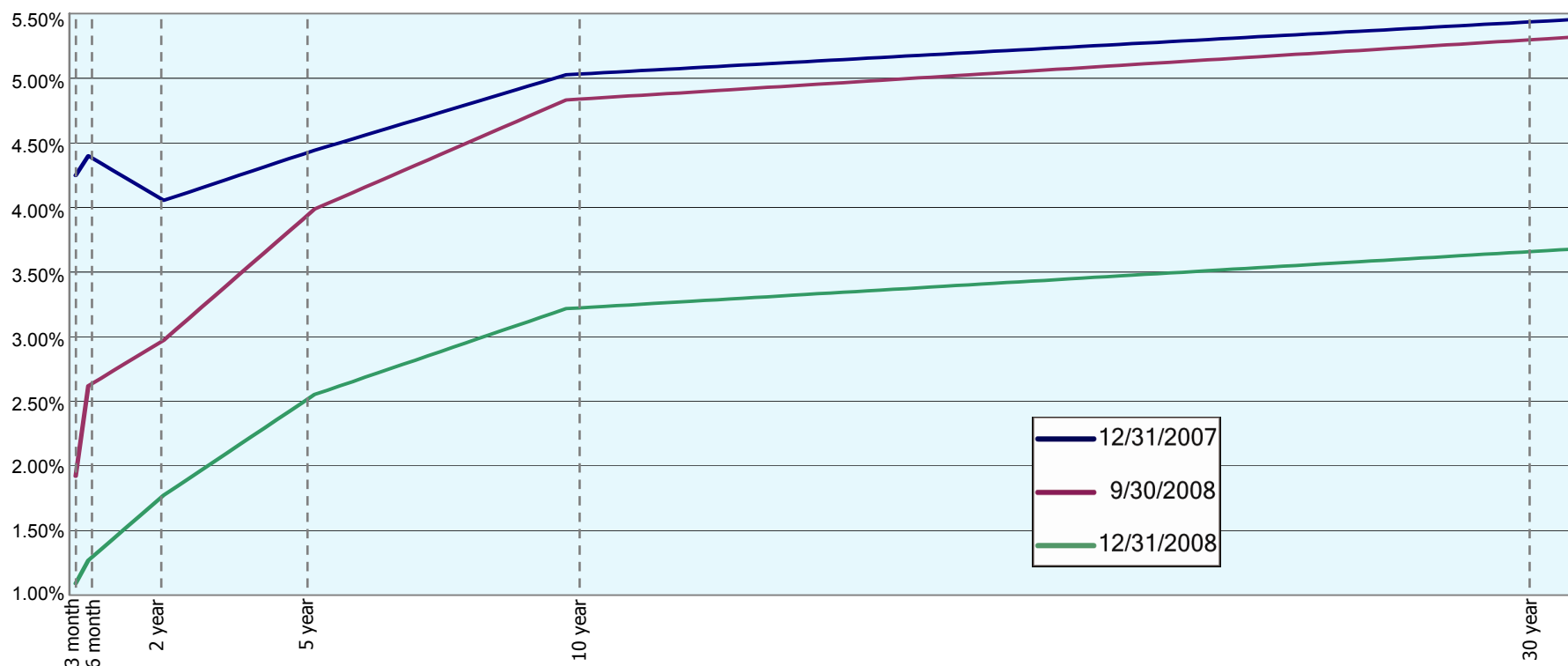
From a macro perspective, important indicators that we follow that help us to identify inflection points include new orders for capital goods, jobless claims, the CRB index, and the VIX volatility index, among others. Substantial improvements in these and other sensitive data would be the catalyst to begin seriously considering a more constructive posture toward stocks and corporate bonds. On an individual security level, our stock research focuses on trends in earnings estimates, valuation and momentum. Our fixed income research seeks to identify opportunities to adjust sector weights, portfolio duration and maturity structure and to identify compelling credits.

Although our primary objective is to preserve capital, we envision that 2009 will be a propitious year to switch, to some appropriate and prudent degree, from "defense" to "offense". This adjustment will entail adding to economically more sensitive sectors and industries and will also mean a more conservative duration posture. We will continue to monitor financial market developments carefully and will institute changes when the risk/return trade-off is favorable to our clients' portfolios.

	Index Returns	
	Quarter 9/30/08-12/31/2008	One-Year 12/31/07-12/31/08
S&P 500	(21.94%)	(36.99%)
S&P MidCap 400	(25.55)	(36.24)
S&P SmallCap 600	(25.17)	(31.08)
Russell 2000	(26.12)	(33.78)
Dow Jones Industrials	(19.12)	(33.84)
NASDAQ	(24.37)	(39.98)
MSCI EAFE	(19.92)	(43.07)
Lehman Aggregate	4.58	5.24
Lehman Gov./Credit	6.42	5.70

U.S. Treasury Yield Curve

Fourth Quarter 2008

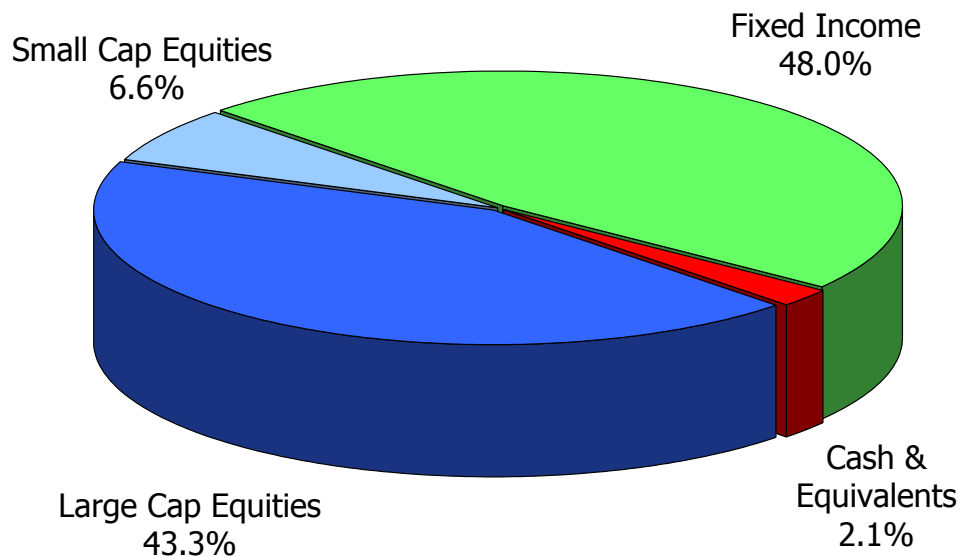


	<u>12/31/2007</u>	<u>9/30/2008</u>	<u>12/31/2008</u>	<u>Quarterly Change</u>	<u>Annual Change</u>
3 Month	3.25%	0.92%	0.09%	(0.83%)	(3.16%)
6 Month	3.40	1.62	0.27	(1.35)	(3.13)
2 Year	3.06	1.97	0.77	(1.20)	(2.29)
5 Year	3.44	2.98	1.55	(1.43)	(1.89)
10 Year	4.03	3.83	2.22	(1.61)	(1.81)
30 Year	4.45	4.31	2.68	(1.63)	(1.77)

PERFORMANCE SUMMARY

Beaver County Retirement System as of December 31, 2008

Asset Allocation



PORTFOLIO VALUE ON 9/30/08\$86,910,665.14

CONTRIBUTIONS..... 1,946,104.74

WITHDRAWALS..... (2,192,866.57)

REALIZED GAINS.....(3,167,763.69)

UNREALIZED GAINS.....(6,862,305.98)

INTEREST 484,809.88

DIVIDENDS..... 312,566.29

CHANGE IN ACCRUED INTEREST 18,576.38

PORTFOLIO VALUE ON 12/31/08\$77,449,786.19

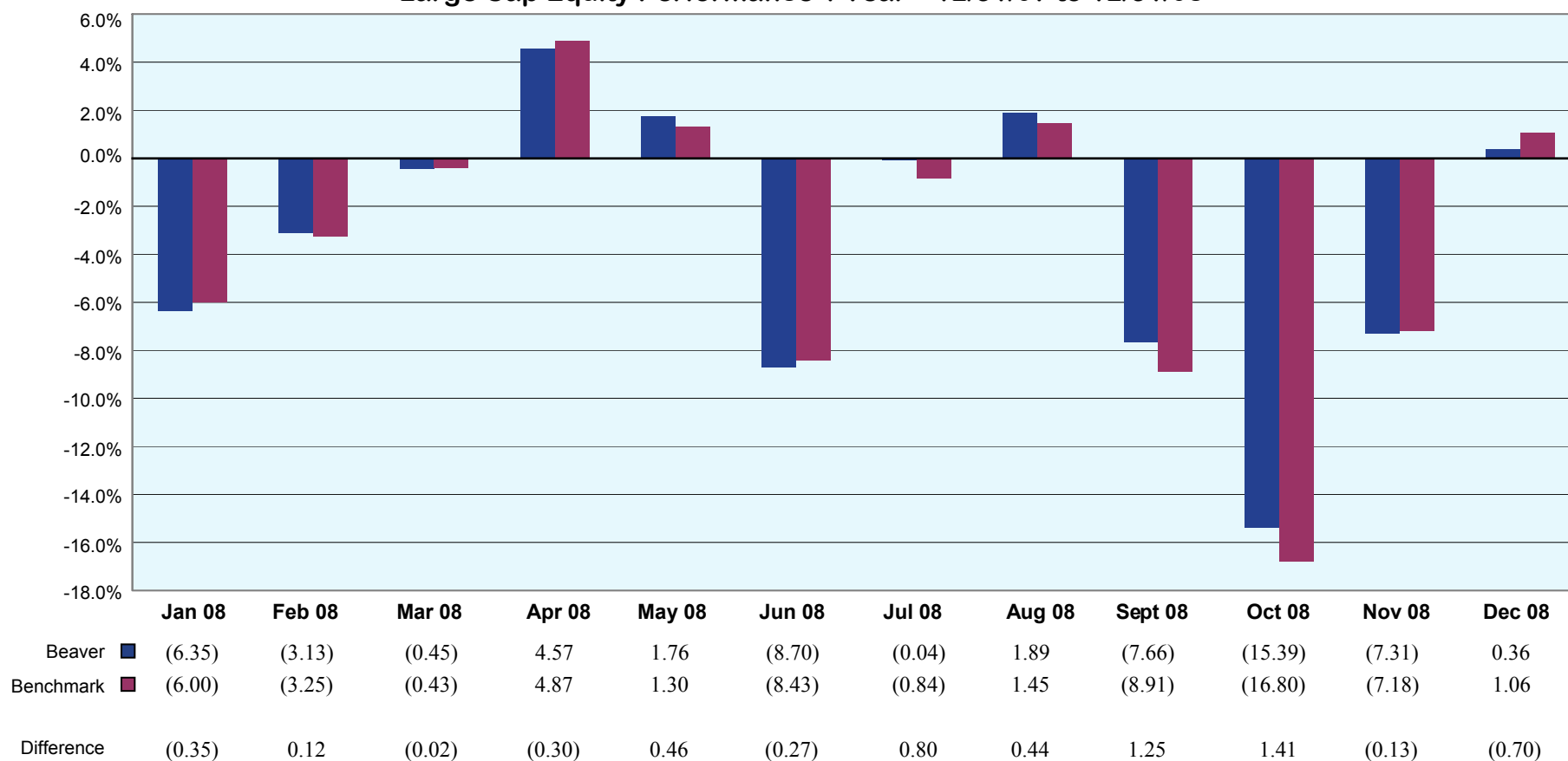
TOTAL INVESTMENT GAIN

FOR TRAILING 3 MONTHS.....(\$3,490,355.55)

	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Total Return</u>
Fourth Quarter 2008 (6/30/08 to 12/31/08)	86,910,665.14	77,449,786.19	(10.62%)
Trailing 12 Months (12/31/07 to 12/31/08)	94,178,593.45	77,449,786.19	(18.71%)
Inception to Date (12/26/95 to 12/31/08)	29,690,332.35	77,449,786.19	108.45%

Portfolio Performance Compared to Benchmark

Large Cap Equity Performance 1 Year – 12/31/07 to 12/31/08



Beaver

Standard & Poor's 500 Index

Fourth Quarter 2008 (9/30/08 to 12/31/08)

(21.30%)

(21.94%)

Trailing 12 Months (12/31/07 to 12/31/08)

(35.07%)

(37.00%)

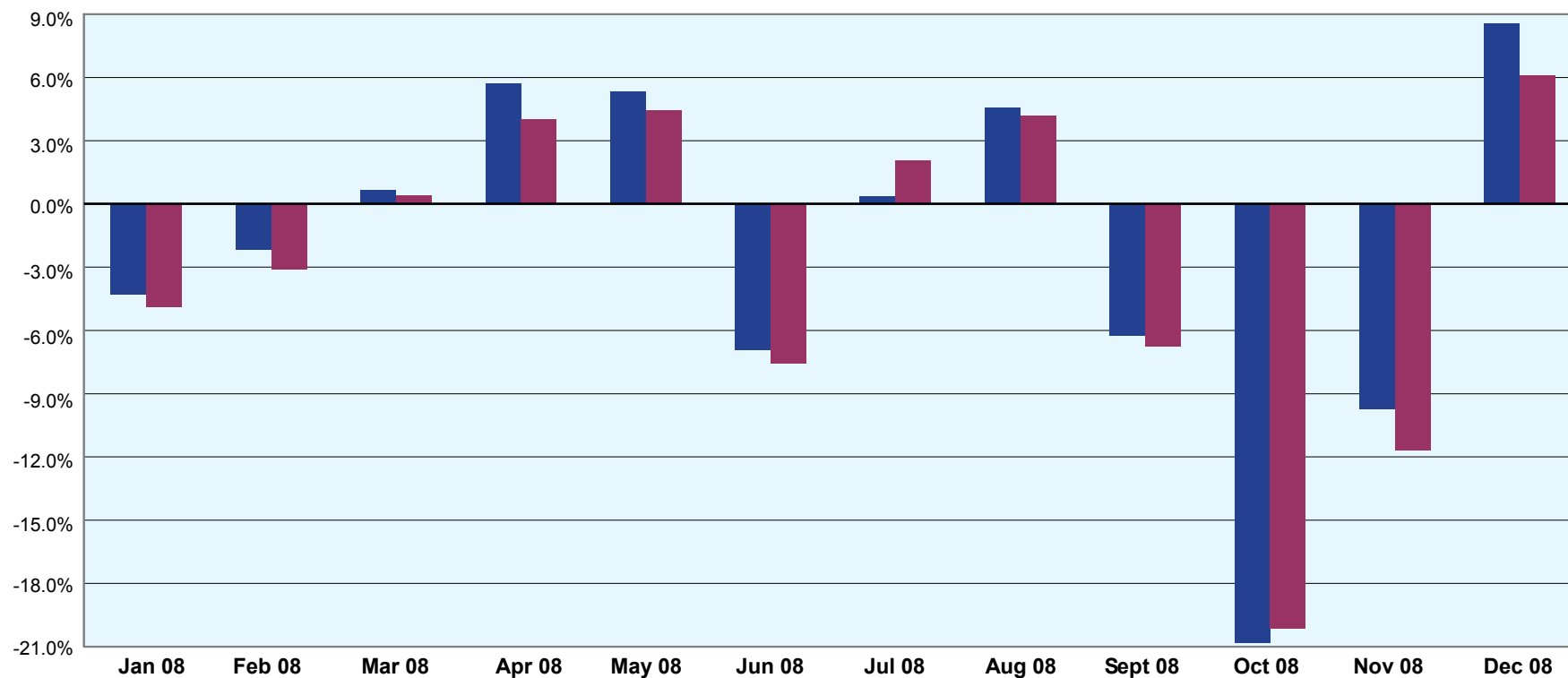
Trailing 3 Years (12/31/05 to 12/31/08)

(7.49%)

(8.36%) *annualized*

Portfolio Performance Compared to Benchmark

Small Cap Equity Performance 1 Year – 12/31/07 to 12/31/08



	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sept 08	Oct 08	Nov 08	Dec 08
Beaver	(4.29)	(2.16)	0.67	5.71	5.32	(6.94)	0.37	4.57	(6.26)	(20.81)	(9.74)	8.54
Benchmark	(4.89)	(3.08)	0.39	4.01	4.42	(7.56)	2.07	4.18	(6.75)	(20.15)	(11.68)	6.10
Difference	0.60	0.92	0.28	1.70	0.90	0.62	(1.70)	0.39	0.49	(0.66)	1.94	2.44

Beaver

Standard & Poor's 600 Index

Fourth Quarter 2008 (9/30/08 to 12/31/08)

(21.75%)

(25.17%)

Trailing 12 Months (12/31/07 to 12/31/08)

(24.25%)

(31.07%)

Trailing 3 Years (12/31/05 to 12/31/08)

(4.74%)

(7.51%) *annualized*

Portfolio Performance Compared to Benchmark

Fixed Income Performance 1 Year – 12/31/07 to 12/31/08



	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sept 08	Oct 08	Nov 08	Dec 08
Beaver	1.81	0.09	0.41	(0.10)	(0.88)	(0.09)	(0.24)	1.01	(2.64)	(3.40)	3.26	4.26
Benchmark	1.90	0.63	(0.01)	(0.59)	(1.03)	0.10	0.00	0.92	(2.54)	(2.50)	4.43	4.53
Difference	(0.09)	(0.54)	0.42	0.49	0.15	(0.19)	(0.24)	0.09	(0.10)	(0.90)	(1.17)	(0.27)

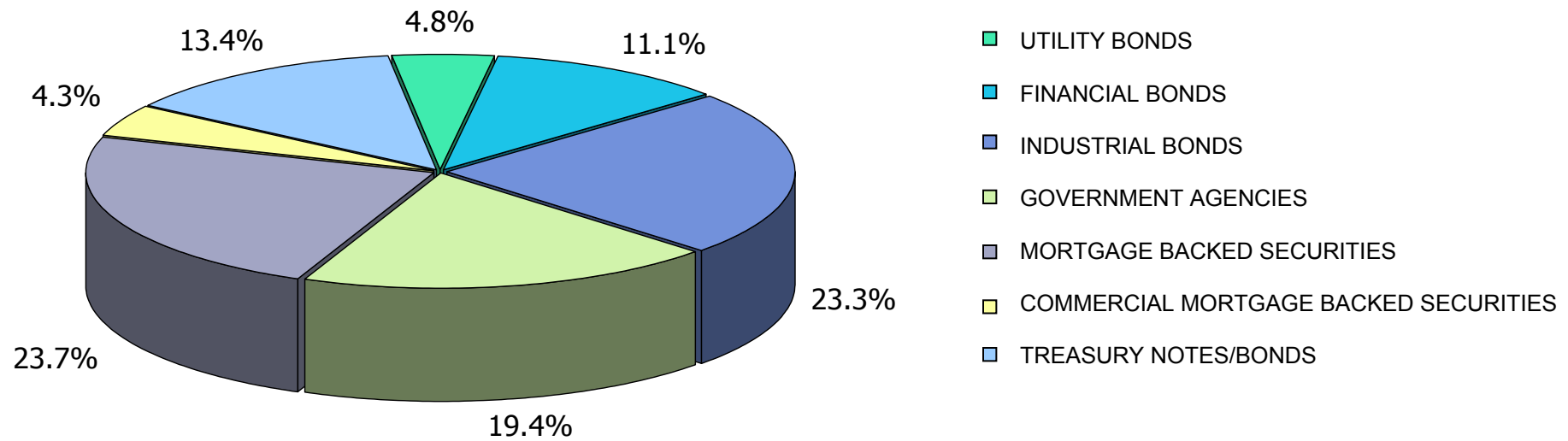
	<u>Beaver</u>	<u>Lehman Bros. Government/Credit Index</u>
Fourth Quarter 2008 (9/30/08 to 12/31/08)	3.99%	6.42%
Trailing 12 Months (12/31/07 to 12/31/08)	3.28%	5.70%
Trailing 3 Years (12/31/05 to 12/31/08)	4.54%	5.56% <i>annualized</i>

Footnote: Performance results are presented gross of management fees and net of commissions. Please refer to your Investment Management Agreement for applicable management fees. Fees are pro rata by quarter. Performance reported as of the end of each month.

PORTFOLIO STATISTICS

Beaver County Retirement System – Fixed Income Account as of December 31, 2008

Asset Allocation



Statistical Characteristics

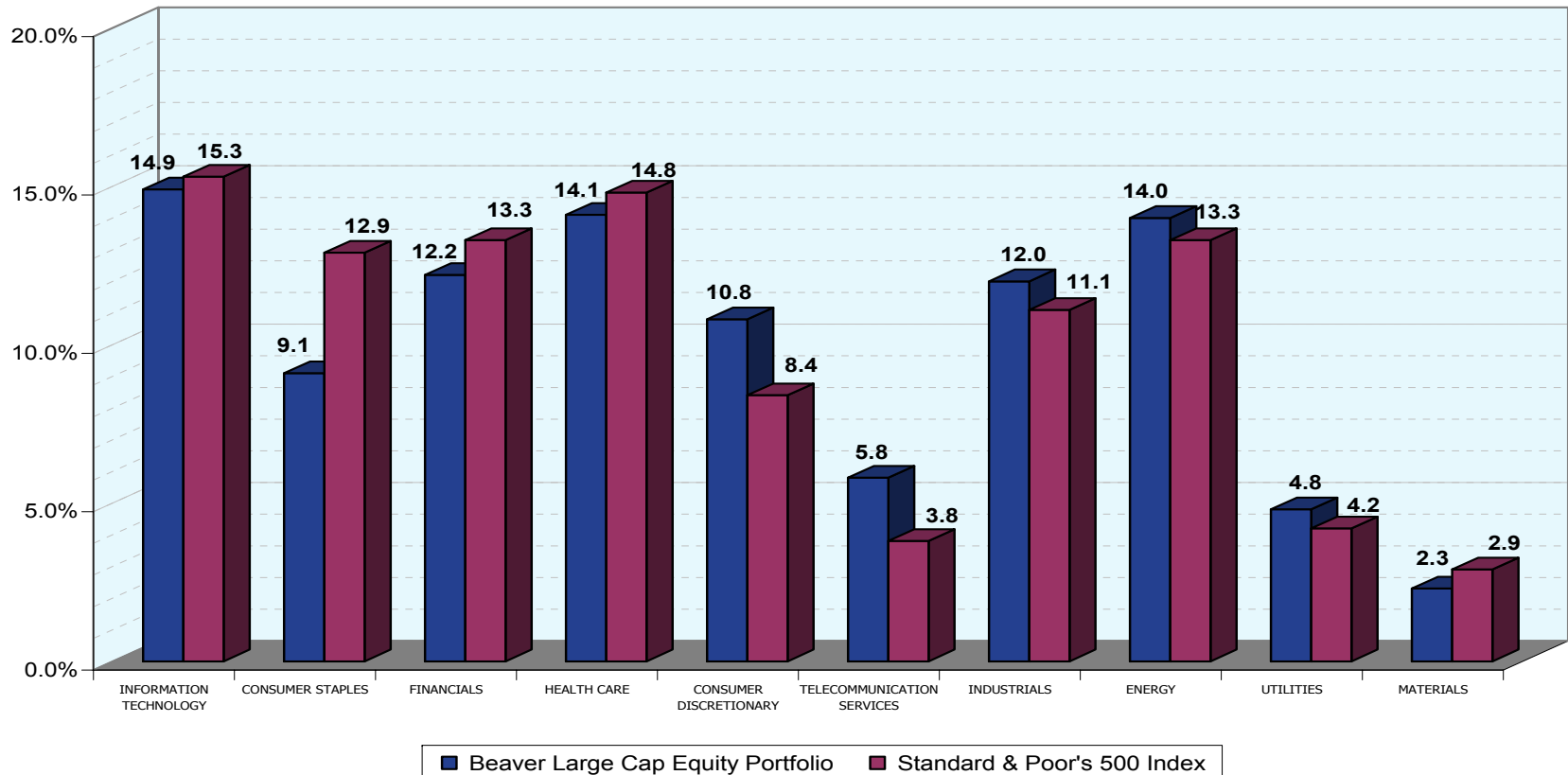
	Beaver	LBGC
Coupon	5.35%	5.16%
Yield to Maturity	6.42%	3.67%
Effective Duration	4.33 yrs	5.21 yrs
Average Credit Quality	Aa3	Aa3

Sector Allocation

	Beaver	LBGC
Utility Bonds	4.8%	3.5%
Financial Bonds	11.1%	12.7%
Industrial Bonds	23.3%	15.6%
Government Agencies	19.4%	18.9%
Other Government	0.0%	5.0%
Mortgage Backed Securities	23.7%	0.0%
Commercial Mortgage Backed Securities	4.3%	0.0%
Treasury Notes/Bonds	13.4%	44.3%

PORTFOLIO STATISTICS

Beaver County Retirement System – Large Cap Portfolio Industry Sector Diversification as of December 31, 2008

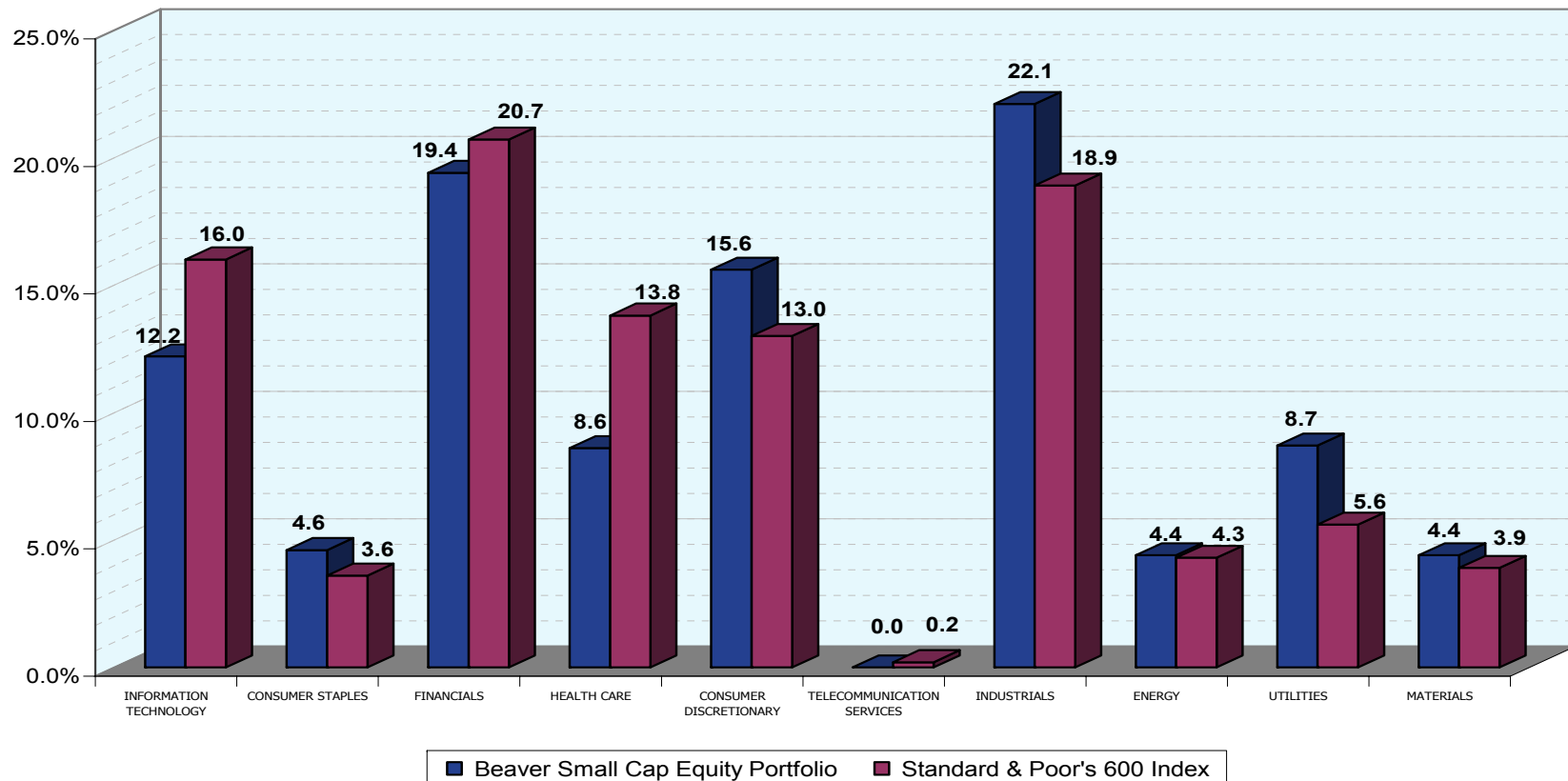


Top Ten Equity Holdings

	percentage		percentage
1. Exxon Mobil Corp.	2.2	6. AT&T	1.2
2. Verizon Comm.	1.3	7. Chevron Texaco Corp.	1.1
3. Wells Fargo & Co.	1.3	8. General Electric	1.0
4. Johnson & Johnson	1.2	9. JP Morgan Chase	1.0
5. Procter & Gamble	1.2	10. Metlife Inc.	1.0

PORTFOLIO STATISTICS

Beaver County Retirement System – Small Cap Portfolio Industry Sector Diversification as of December 31, 2008



Top Ten Equity Holdings

	percentage		percentage
1. Avista Corp.	2.3	6. Acuity Brands Inc.	1.9
2. Seacor Smit Inc.	2.3	7. ITRON Inc.	1.9
3. J&J Snack Foods	2.1	8. Viad Corp.	1.8
4. Emcor Group Inc.	2.1	9. Texas Industries	1.8
5. Benchmark Electronics	2.1	10. Presidential Life	1.8

BEAVER COUNTY RETIREMENT SYSTEM PORTFOLIO APPRAISAL

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
COMMON STOCK								
INFORMATION TECHNOLOGY								
5,900	ATMI Inc.	18.91	111,548.53	15.43	91,037.00	0.1	0.00	0.0
4,200	Apple Computer	108.10	454,003.46	85.35	358,470.00	0.5	0.00	0.0
12,525	Applied Material	13.47	168,711.75	10.13	126,878.25	0.2	0.00	0.0
7,625	Auto Data Process	36.09	275,175.58	39.34	299,967.50	0.4	2,211.25	0.7
8,235	Benchmark Electronics	14.71	121,175.95	12.77	105,160.95	0.1	0.00	0.0
2,940	Brady Corp-A	29.51	86,764.69	23.95	70,413.00	0.1	1,646.40	2.3
32,855	Cisco Systems, Inc.	16.69	548,378.70	16.30	535,536.50	0.7	0.00	0.0
2,795	Cymer Inc.	25.83	72,201.60	21.91	61,238.45	0.1	0.00	0.0
12,295	Dell Inc.	21.74	267,340.23	10.24	125,900.80	0.2	0.00	0.0
16,855	EMC Corp.	11.01	185,522.99	10.47	176,471.85	0.2	0.00	0.0
980	Google Inc Cl-B	458.96	449,785.02	307.65	301,497.00	0.4	0.00	0.0
12,125	Hewlett Packard Co.	22.70	275,291.23	36.29	440,016.25	0.6	970.00	0.2
1,500	ITRON Inc.	45.07	67,608.45	63.74	95,610.00	0.1	0.00	0.0
6,745	Int'l Bus Machines	69.98	472,038.62	84.16	567,659.20	0.7	3,372.50	0.6
32,470	Intel Corporation	19.06	618,891.76	14.66	476,010.20	0.6	4,545.80	1.0
3,990	MKS Instruments Inc.	17.12	68,307.89	14.79	59,012.10	0.1	0.00	0.0
3,245	Micros Syst Inc	27.61	89,585.32	16.32	52,958.40	0.1	0.00	0.0
34,735	Microsoft Corporation	26.64	925,394.69	19.44	675,248.40	0.9	3,820.85	0.6
21,790	Oracle Systems Corp.	15.79	343,958.83	17.73	386,336.70	0.5	0.00	0.0
4,400	PC-Tel Inc	5.46	24,036.32	6.57	28,908.00	0.0	0.00	?
8,165	Qualcomm Inc.	36.16	295,255.31	35.83	292,551.95	0.4	1,306.40	0.4
2,420	Tetra Tech Inc	20.44	49,462.86	24.15	58,443.00	0.1	0.00	?
14,620	Texas Instruments	24.70	361,179.72	15.52	226,902.40	0.3	1,462.00	0.6
			6,331,619.52		5,612,227.90	7.2	19,335.20	0.3
CONSUMER STAPLES								
9,265	Altria Group Inc.	12.05	111,669.96	15.06	139,530.90	0.2	2,686.85	1.9
2,295	Casey's Gen. Stores	26.32	60,403.02	22.77	52,257.15	0.1	459.00	0.9
10,475	Coca Cola Co.	54.81	574,097.16	45.27	474,203.25	0.6	3,980.50	0.8
1,200	Diamond Foods Inc	28.02	33,620.96	20.15	24,180.00	0.0	54.00	0.2
5,880	General Mills, Inc.	64.62	379,965.01	60.75	357,210.00	0.5	8,232.00	2.3
2,645	Hain Celestial Group Inc.	29.06	76,850.90	19.09	50,493.05	0.1	0.00	0.0
2,980	J&J Snack Foods	28.06	83,604.20	35.88	106,922.40	0.1	275.65	0.3
8,516	Kraft Foods Inc.	20.67	176,056.85	26.85	228,654.60	0.3	2,299.32	1.0

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
6,460	Pepsico Inc.	45.57	294,407.18	54.77	353,814.20	0.5	2,745.50	0.8
9,225	Philip Morris Intl.	26.87	247,911.42	43.51	401,379.75	0.5	0.00	0.0
14,235	Procter & Gamble	56.71	807,197.89	61.82	880,007.70	1.1	5,694.00	0.6
8,920	Sysco Corp.	27.20	242,649.87	22.94	204,624.80	0.3	2,497.60	1.2
			3,088,434.42		3,273,277.80	4.2	28,924.42	0.9

FINANCIALS

3,500	Acadia Realty Trust	23.08	80,779.76	14.27	49,945.00	0.1	735.00	1.5
12,870	American Express Co.	30.20	388,631.53	18.55	238,738.50	0.3	2,316.60	1.0
41,008	Bank of America Corp.	28.64	1,174,383.40	14.08	577,392.64	0.7	26,245.12	4.5
4,655	Biomed Realty Trust Inc.	20.84	96,998.76	11.72	54,556.60	0.1	1,559.42	2.9
35,605	Citigroup - New	26.06	927,902.19	6.71	238,909.55	0.3	11,393.60	4.8
1,950	Entertainment Prop Inc	40.93	79,817.15	29.80	58,110.00	0.1	1,638.00	2.8
3,665	Financial Fed. Corp.	22.10	80,981.11	23.27	85,284.55	0.1	366.50	0.4
4,355	First Midwest Bancorp	29.83	129,890.49	19.97	86,969.35	0.1	1,350.05	1.6
3,370	Goldman Sachs Grp.	106.08	357,477.68	84.39	284,394.30	0.4	1,179.50	0.4
22,255	JP Morgan Chase	35.83	797,363.46	31.53	701,700.15	0.9	8,456.90	1.2
2,410	Kilroy Realty	49.35	118,929.16	33.46	80,638.60	0.1	1,397.80	1.7
19,630	Metlife Inc.	39.56	776,492.13	34.86	684,301.80	0.9	4,122.30	0.6
5,045	National Retail Properties	21.00	105,925.61	17.19	86,723.55	0.1	1,891.87	2.2
2,110	Piper Jaffray Cos	32.50	68,576.69	39.76	83,893.60	0.1	0.00	0.0
9,265	Presidential Life	14.30	132,465.10	9.89	91,630.85	0.1	0.00	0.0
1,600	Proassurance Corp	48.58	77,722.25	52.78	84,448.00	0.1	0.00	0.0
1,295	RLI Corp	51.40	66,560.80	61.16	79,202.20	0.1	259.00	0.3
3,665	Senior Housing Prop Tr.	20.58	75,438.36	17.92	65,676.80	0.1	1,282.75	2.0
3,810	Simon Property Grp.	76.47	291,352.99	53.13	202,425.30	0.3	2,095.50	1.0
6,820	U.S. Bancorp	31.89	217,504.12	25.01	170,568.20	0.2	5,115.00	3.0
1,560	Umpqua Holdings Corp	15.54	24,241.50	14.47	22,573.20	0.0	296.40	1.3
1,415	Vornado Realty Trust	75.83	107,292.66	60.35	85,395.25	0.1	1,273.50	1.5
1,365	Watson Wyatt WW Cl-A	40.00	54,599.74	47.82	65,274.30	0.1	102.37	0.2
30,740	Wells Fargo & Co.	32.54	1,000,359.82	29.48	906,215.20	1.2	34,428.80	3.8
			7,231,686.47		5,084,967.49	6.6	107,506.00	2.1

HEALTH CARE

10,345	Abbott Laboratories	48.60	502,808.93	53.37	552,112.65	0.7	3,724.20	0.7
3,895	Allergan Inc.	45.94	178,918.38	40.32	157,046.40	0.2	1,402.20	0.9
1,000	Amedisys Inc	53.70	53,702.30	41.34	41,340.00	0.1	0.00	0.0
4,650	Amgen Inc.	47.50	220,867.45	57.75	268,537.50	0.3	0.00	0.0
3,500	Baxter International Inc.	61.44	215,032.65	53.59	187,565.00	0.2	2,037.00	1.1



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
13,970	Bristol Myers Squibb	23.41	326,974.15	23.25	324,802.50	0.4	4,330.70	1.3
4,445	Cardinal Health	42.71	189,852.17	34.47	153,219.15	0.2	1,600.20	1.0
6,055	Celgene Corp	60.58	366,783.44	55.28	334,720.40	0.4	0.00	0.0
3,535	Conmed Corp.	26.48	93,596.43	23.94	84,627.90	0.1	0.00	0.0
6,485	Gilead Sciences Inc.	44.18	286,505.68	51.14	331,642.90	0.4	0.00	0.0
1,000	Haemonetics Corp/Mass	52.53	52,528.00	56.50	56,500.00	0.1	0.00	?
2,300	Immucor Inc.	21.57	49,611.00	26.58	61,134.00	0.1	0.00	0.0
1,600	Integra Lifesciences	32.41	51,862.08	35.57	56,912.00	0.1	0.00	0.0
880	Intuitive Surgical Inc	225.47	198,417.30	126.99	111,751.20	0.1	0.00	0.0
14,910	Johnson & Johnson	56.25	838,731.96	59.83	892,065.30	1.2	6,858.60	0.8
1,060	Kensey Nash Corp	24.29	25,745.14	19.41	20,574.60	0.0	0.00	?
6,985	Lilly (ELI) Co.	56.26	392,978.38	40.27	281,285.95	0.4	3,282.95	1.2
5,340	Medtronic, Inc.	52.96	282,795.34	31.42	167,782.80	0.2	2,349.60	1.4
10,930	Merck & Co. Inc.	46.19	504,867.84	30.40	332,272.00	0.4	4,153.40	1.2
1,550	Meridian Bioscience Inc.	25.97	40,258.00	25.47	39,478.50	0.1	217.00	0.5
1,300	Owens & Minor Inc	39.95	51,939.03	37.65	48,945.00	0.1	260.00	0.5
1,580	Pediatrix Medical Grp Inc.	30.68	48,471.02	31.70	50,086.00	0.1	0.00	0.0
4,835	Thermo Fisher Scientific	48.71	235,510.92	34.07	164,728.45	0.2	0.00	0.0
11,895	Wyeth	37.22	442,776.30	37.51	446,181.45	0.6	3,330.60	0.7
			5,651,533.88		5,165,311.65	6.7	33,546.45	0.6
CONSUMER DISCRETIONARY								
13,635	Brunswick Corp.	6.12	83,423.02	4.21	57,403.35	0.1	6,817.50	11.9
7,665	CVS Corp.	36.66	281,020.95	28.74	220,292.10	0.3	459.90	0.2
5,270	Colonial Properties Tr.	12.51	65,904.51	8.33	43,899.10	0.1	3,478.20	7.9
20,277	Comcast Corp.-Cl A	17.97	364,449.34	16.88	342,275.76	0.4	1,267.31	0.4
2,580	Costco Wholesale Corp.	60.58	156,289.43	52.50	135,450.00	0.2	1,341.60	1.0
650	Deckers Outdoor Corp	76.14	49,490.98	79.87	51,915.50	0.1	0.00	?
14,270	Disney Walt Co.	23.83	340,069.26	22.69	323,786.30	0.4	4,994.50	1.5
1,815	Factset Research Sys Inc.	49.35	89,575.37	44.24	80,295.60	0.1	326.70	0.4
14,635	Home Depot Inc.	26.65	390,086.75	23.02	336,897.70	0.4	3,292.87	1.0
5,210	Kohls Corporation	34.20	178,194.50	36.20	188,602.00	0.2	0.00	0.0
11,400	Lowe's Companies	19.98	227,799.36	21.52	245,328.00	0.3	2,280.00	0.9
6,595	McDonalds Corp.	52.91	348,913.27	62.19	410,143.05	0.5	2,473.12	0.6
6,695	Nike, Inc. - Class B	58.83	393,898.99	51.00	341,445.00	0.4	3,213.60	0.9
2,405	Polaris Industries Inc.	38.13	91,690.67	28.65	68,903.25	0.1	913.90	1.3
5,535	RC2 Corp	12.72	70,404.65	10.67	59,058.45	0.1	0.00	0.0
6,430	Sonic Corp.	15.45	99,317.44	12.17	78,253.10	0.1	0.00	0.0
9,810	Staples Inc	18.84	184,799.80	17.92	175,795.20	0.2	3,237.30	1.8

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
5,355	Target Corp.	53.37	285,796.35	34.53	184,908.15	0.2	856.80	0.5
17,975	Time Warner Inc.	15.17	272,767.44	10.06	180,828.50	0.2	1,123.44	0.6
2,100	Toro Co.	44.54	93,539.57	33.00	69,300.00	0.1	315.00	0.5
1,730	Tractor Supply Co.	35.39	61,224.35	36.14	62,522.20	0.1	0.00	0.0
3,830	Viad Corp.	29.06	111,303.50	24.74	94,754.20	0.1	153.20	0.2
9,465	Wal-Mart Stores	49.81	471,491.83	56.06	530,607.90	0.7	2,247.94	0.4
1,760	Watsco, Inc.	43.05	75,773.32	38.40	67,584.00	0.1	792.00	1.2
3,090	Wolverine W.W.	23.49	72,590.90	21.04	65,013.60	0.1	139.05	0.2
			4,859,815.55		4,415,262.01	5.7	39,723.94	0.9
TELECOMMUNICATION SERVICES								
29,585	AT&T	33.59	993,882.63	28.50	843,172.50	1.1	11,834.00	1.4
6,670	American Tower Cl-A	35.61	237,525.37	29.32	195,564.40	0.3	0.00	0.0
1	Citadel Broadcasting	25.82	25.81	0.16	0.16	0.0	0.00	0.0
27,005	Verizon Comm.	32.84	886,784.49	33.90	915,469.50	1.2	11,612.15	1.3
			2,118,218.30		1,954,206.56	2.5	23,446.15	1.2
INDUSTRIALS								
4,015	3M Co.	74.40	298,699.94	57.54	231,023.10	0.3	2,007.50	0.9
2,775	Acuity Brands Inc.	34.62	96,067.23	34.91	96,875.25	0.1	360.75	0.4
4,285	Albany Intl Corp.	26.13	111,954.87	12.84	55,019.40	0.1	514.20	0.9
1,730	Anixter Intl Inc.	53.09	91,843.11	30.12	52,107.60	0.1	0.00	0.0
3,800	Baldor Electric Co.	31.14	118,316.59	17.85	67,830.00	0.1	646.00	1.0
3,200	Belden CDT	29.80	95,369.62	20.88	66,816.00	0.1	160.00	0.2
5,795	Boeing Co.	49.02	284,060.83	42.67	247,272.65	0.3	2,318.00	0.9
2,480	Burlington Northern	85.03	210,877.62	75.71	187,760.80	0.2	2,480.00	1.3
4,385	Caterpillar Inc.	63.94	280,386.55	44.67	195,877.95	0.3	1,841.70	0.9
2,170	Curtiss-Wright Corp.	42.27	91,717.12	33.39	72,456.30	0.1	173.60	0.2
4,020	Eaton Corp.	51.87	208,525.44	49.71	199,834.20	0.3	2,010.00	1.0
4,720	Emcor Group Inc.	19.59	92,463.76	22.43	105,869.60	0.1	0.00	0.0
6,310	Emerson Electric	39.06	246,467.97	36.61	231,009.10	0.3	9,654.30	4.2
1,520	Fedex Corp.	73.36	111,506.29	64.15	97,508.00	0.1	547.20	0.6
4,195	G & K Services, Inc.	29.75	124,804.31	20.22	84,822.90	0.1	209.75	0.2
44,505	General Electric Co.	32.48	1,445,394.56	16.20	720,981.00	0.9	13,796.55	1.9
7,270	Honeywell Intl., Inc.	47.06	342,100.03	32.83	238,674.10	0.3	1,999.25	0.8
7,900	Johnson Controls	24.05	190,002.11	18.16	143,464.00	0.2	2,844.00	2.0
2,515	Kaydon Corp.	40.96	103,014.16	34.35	86,390.25	0.1	377.25	0.4
1,915	Lennox Intl Inc.	29.52	56,531.34	32.29	61,835.35	0.1	268.10	0.4
2,775	Lockheed Martin Corp.	94.00	260,837.79	84.08	233,322.00	0.3	3,885.00	1.7

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
4,750	Parker Hannifin	46.57	221,199.90	42.54	202,065.00	0.3	997.50	0.5
1,400	Schulman (A.) Inc	17.43	24,403.94	17.00	23,800.00	0.0	210.00	0.9
2,840	Simpson Man. Co.	22.33	63,430.26	27.76	78,838.40	0.1	0.00	0.0
1,210	Teledyne Inc.	45.10	54,575.11	44.55	53,905.50	0.1	0.00	0.0
4,440	Union Pacific Corp.	62.54	277,686.92	47.80	212,232.00	0.3	3,552.00	1.7
5,775	United Parcel Svc-CI B	67.75	391,251.04	55.16	318,549.00	0.4	2,598.75	0.8
2,125	United Stationers Inc.	31.76	67,489.17	33.49	71,166.25	0.1	0.00	0.0
6,215	United Tech Corp.	45.23	281,077.81	53.60	333,124.00	0.4	1,988.80	0.6
8,815	Veeco Inst. Inc.	10.11	89,087.92	6.34	55,887.10	0.1	0.00	0.0
2,130	Waste Connections Inc.	30.24	64,417.62	31.57	67,244.10	0.1	0.00	0.0
7,675	Waste Mgmt Holding	31.25	239,806.14	33.14	254,349.50	0.3	2,072.25	0.8
1,650	Woodward Governor	28.40	46,860.37	23.02	37,983.00	0.0	99.00	0.3
			6,682,227.44		5,185,893.40	6.7	57,611.45	1.1
ENERGY								
10,700	ChevronTexaco Corp.	51.89	555,199.10	73.97	791,479.00	1.0	6,955.00	0.9
10,435	ConocoPhillips	41.84	436,577.77	51.80	540,533.00	0.7	4,904.45	0.9
4,720	Devon Energy Corp.	79.40	374,763.34	65.71	310,151.20	0.4	755.20	0.2
19,440	Exxon Mobil Corp.	46.57	905,376.53	79.83	1,551,895.20	2.0	7,776.00	0.5
11,990	Halliburton Company	22.12	265,251.17	18.18	217,978.20	0.3	3,597.00	1.7
4,180	Ion Geophysical Corp	5.56	23,221.57	3.43	14,337.40	0.0	0.00	?
2,500	Kirby Corp.	31.40	78,507.00	27.36	68,400.00	0.1	0.00	0.0
7,825	Marathon Oil	31.07	243,123.53	27.36	214,092.00	0.3	12,520.00	5.8
7,000	Occidental Pete	61.51	430,567.42	59.99	419,930.00	0.5	2,240.00	0.5
10,945	Peabody Energy Corp	34.52	377,824.68	22.75	248,998.75	0.3	656.70	0.3
6,730	Schlumberger LTD	44.07	296,561.59	42.33	284,880.90	0.4	1,413.30	0.5
1,755	Seacor Smit Inc.	71.53	125,535.29	66.65	116,970.75	0.2	0.00	0.0
1,200	St. Mary Land & Exp.	22.26	26,710.88	20.31	24,372.00	0.0	60.00	0.2
10,275	Williams Co., Inc.	32.49	333,830.64	14.48	148,782.00	0.2	1,130.25	0.8
			4,473,050.51		4,952,800.40	6.4	42,007.90	0.8
UTILITIES								
9,495	Ameren Corporation	33.09	314,148.72	33.26	315,803.70	0.4	6,029.32	1.9
3,300	Atmos Energy Corp.	22.00	72,615.96	23.70	78,210.00	0.1	1,072.50	1.4
6,175	Avista Corp.	22.22	137,195.92	19.38	119,671.50	0.2	1,018.87	0.9
3,760	Cleco Corp	21.19	79,660.86	22.83	85,840.80	0.1	846.00	1.0
4,240	El Paso Electric	17.95	76,127.93	18.09	76,701.60	0.1	0.00	0.0
5,185	Exelon Corp.	57.23	296,726.14	55.61	288,337.85	0.4	2,385.10	0.8
6,105	NICOR Inc.	47.68	291,062.06	34.74	212,087.70	0.3	2,838.82	1.3

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
6,730	PP & L Resources	48.51	326,443.36	30.69	206,543.70	0.3	2,254.55	1.1
5,825	Pacific Gas and Electric	34.84	202,940.67	38.71	225,485.75	0.3	0.00	0.0
8,145	Sempra Energy	43.82	356,948.92	42.63	347,221.35	0.4	8,145.00	2.3
2,170	South Jersey Ind.	31.02	67,304.50	39.85	86,474.50	0.1	488.25	0.6
			2,221,175.05		2,042,378.45	2.6	25,078.42	1.2
MATERIALS								
950	Cabot Microelectronics	25.61	24,326.89	26.07	24,766.50	0.0	0.00	?
11,035	Dow Chemical Co.	26.51	292,492.61	15.09	166,518.15	0.2	14,786.90	8.9
7,330	Du Pont (E.I.)	42.44	311,065.17	25.30	185,449.00	0.2	3,005.30	1.6
2,595	Monsanto Co.	103.25	267,930.12	70.35	182,558.25	0.2	622.80	0.3
5,425	PPG Industries Inc.	52.23	283,367.28	42.43	230,182.75	0.3	2,821.00	1.2
2,700	Texas Industries Inc.	43.20	116,653.37	34.50	93,150.00	0.1	202.50	0.2
1,225	Valmont Industries	75.67	92,690.68	61.36	75,166.00	0.1	159.25	0.2
2,700	Wausau Paper Corp.	7.56	20,417.40	11.44	30,888.00	0.0	229.50	0.7
			1,408,943.52		988,678.65	1.3	21,827.25	2.2
	COMMON STOCK Total		44,066,704.65		38,675,004.31	49.9	399,007.18	1.0
U.S. TREASURY NOTES/BONDS								
2,800,000	U.S. Treasury Note 2.000% Due 09-30-10	100.60	2,816,843.75	102.50	2,870,000.00	3.7	56,000.00	2.0
200,000	U.S. Treasury Note 4.875% Due 02-15-12	99.57	199,140.63	111.91	223,812.50	0.3	9,750.00	4.4
110,000	U.S. Treasury Note 4.750% Due 05-31-12	105.02	115,517.60	111.94	123,131.25	0.2	5,225.00	4.2
210,000	U.S. Treasury Note 4.875% Due 06-30-12	105.62	221,812.50	112.41	236,053.12	0.3	10,237.50	4.3
275,000	U.S. Treasury Note 4.625% Due 07-31-12	104.58	287,589.50	112.09	308,257.81	0.4	12,718.75	4.1
500,000	U.S. Treasury Note 4.250% Due 08-15-13	100.03	500,156.25	113.69	568,437.50	0.7	21,250.00	3.7
475,000	U.S. Treasury Note 4.750% Due 05-15-14	105.68	501,980.00	117.69	559,015.62	0.7	22,562.50	4.0
	Accrued Interest				34,378.85	0.0		
	U.S. TREASURY NOTES/BONDS Total		4,643,040.23		4,923,086.66	6.4	137,743.75	2.8

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
GOVERNMENT AGENCIES								
500,000	Tenn Valley Authority 6.000% Due 03-15-13	101.58	507,880.00	113.34	566,716.50	0.7	30,000.00	5.3
150,000	Fed Home Loan Mtg 4.500% Due 07-15-13	101.22	151,828.50	108.78	163,171.87	0.2	6,750.00	4.1
270,000	Fed Natl Mtg Assoc 4.625% Due 10-15-13	101.25	273,375.00	110.06	297,168.75	0.4	12,487.50	4.2
500,000	Fed Natl Mtg Assoc 5.500% Due 12-30-14	99.56	497,812.50	101.84	509,218.75	0.7	27,500.00	5.4
500,000	Fed Natl Mtg Assoc 5.000% Due 06-26-15	95.50	477,500.00	100.06	500,312.50	0.6	25,000.00	5.0
360,000	Fed Natl Mtg Assoc 5.000% Due 03-15-16	101.97	367,088.40	112.66	405,562.50	0.5	18,000.00	4.4
2,765,000	Fed Natl Mtg Assoc 5.375% Due 06-12-17	107.20	2,964,190.60	116.84	3,230,729.69	4.2	148,618.75	4.6
1,000,000	Fed Home Loan Mtg 6.000% Due 03-30-22	99.85	998,470.00	100.97	1,009,736.00	1.3	60,000.00	5.9
300,000	Fed Natl Mtg Assoc 6.250% Due 05-15-29	115.35	346,045.50	136.53	409,593.75	0.5	18,750.00	4.6
	Accrued Interest				45,468.91	0.1		
	GOVERNMENT AGENCIES Total		6,584,190.50		7,137,679.22	9.2	347,106.25	4.9
MORTGAGE BACKED SECURITIES								
FNMA/FHLMC								
136,621	FGCI #E97963 5.000% Due 07-01-18	101.78	139,055.02	103.23	141,037.06	0.2	6,831.07	4.8
272,861	FGCI #G18008 4.500% Due 09-01-19	100.31	273,713.83	102.64	280,059.22	0.4	12,278.75	4.4
211,339	FNCL #831192 5.000% Due 11-01-20	98.79	208,773.59	102.92	217,510.33	0.3	10,566.96	4.9
390,295	FGCI #G11900 5.500% Due 02-01-21	98.91	386,026.11	103.22	402,854.65	0.5	21,466.22	5.3
698,102	FGCI #G12335 5.000% Due 05-01-21	98.59	688,284.65	102.92	718,486.28	0.9	34,905.09	4.9
485,156	FNCL #886599 5.500% Due 08-01-21	99.52	482,805.55	103.17	500,539.80	0.6	26,683.55	5.3
221,722	FGCI #G18175 5.500% Due 04-01-22	100.37	222,551.53	103.13	228,671.08	0.3	12,194.73	5.3
167,455	FGCI #G12777 5.000% Due 08-01-22	98.83	165,487.64	102.80	172,151.62	0.2	8,372.73	4.9

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
228,060	FNCL #949663 5.500% Due 08-01-22	100.41	228,983.79	103.16	235,278.21	0.3	12,543.31	5.3
340,583	FNCL #799556 5.000% Due 11-01-34	99.64	339,359.43	102.30	348,420.22	0.4	17,029.17	4.9
771,065	FNCL# 832869 5.000% Due 09-01-35	96.80	746,366.68	102.24	788,328.99	1.0	38,553.24	4.9
160,298	FNCL #805625 5.500% Due 12-01-35	98.47	157,843.40	102.63	164,512.19	0.2	8,816.39	5.4
361,397	FNCL #852028 6.000% Due 01-01-36	99.16	358,347.34	103.08	372,534.86	0.5	21,683.80	5.8
716,871	FNCL #868450 5.500% Due 04-01-36	99.22	711,270.31	102.63	735,717.41	0.9	39,427.90	5.4
1,024,588	FNCL #938289 5.500% Due 07-01-37	98.68	1,011,063.14	102.62	1,051,472.83	1.4	56,352.32	5.4
231,760	FGLMC #G03216 5.000% Due 09-01-37	96.12	222,763.32	102.31	237,116.19	0.3	11,588.01	4.9
319,716	FNCL #899719 5.000% Due 09-01-37	96.12	307,304.93	102.22	326,804.44	0.4	15,985.82	4.9
1,393,772	FNCL #256925 6.000% Due 10-01-37	100.77	1,404,448.66	103.06	1,436,435.58	1.9	83,626.33	5.8
	Accrued Interest				36,575.45	0.0		
			8,054,448.92		8,394,506.40	10.8	438,905.38	5.3
GNMA								
185,381	GNJO #605142 4.500% Due 03-15-19	100.75	186,771.41	103.73	192,299.47	0.2	8,342.15	4.3
173,828	GNSF #594139 5.000% Due 10-15-33	100.09	173,990.62	102.96	178,978.16	0.2	8,691.38	4.9
323,262	GNSF #671531 5.500% Due 09-15-37	100.25	324,070.43	103.23	333,690.69	0.4	17,779.42	5.3
	Accrued Interest				2,901.08	0.0		
			684,832.45		707,869.40	0.9	34,812.95	4.9
	MORTGAGE BACKED SECURITIES Total		8,739,281.37		9,102,375.81	11.8	473,718.33	5.2
COMMERCIAL MORTGAGE BACKED SECURITIES								
750,000	GS Mortgage Sec 5.396% Due 08-10-38	101.28	759,609.38	82.17	616,282.50	0.8	40,470.00	6.6
500,000	Merrill Lynch Mtg Tr 5.499% Due 01-12-44	96.99	484,941.41	44.20	221,020.00	0.3	27,497.19	12.4

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
1,000,000	JPMCC 2006-LDP9 A3 5.336% Due 05-15-47 Accrued Interest	99.09	990,937.50	75.02	750,180.00	1.0	53,360.00	7.1
	COMMERCIAL MORTGAGE BACKED SECURITIES Total		2,235,488.29		1,593,666.05	2.1	121,327.19	7.6

CORPORATE BONDS

UTILITY BONDS

1,000,000	Georgia Power 5.125% Due 11-15-12	97.28	972,810.00	100.79	1,007,865.00	1.3	51,250.00	5.1
142,000	Duke Energy Corp. 5.300% Due 10-01-15	101.07	143,515.10	104.30	148,108.98	0.2	7,526.00	5.1
300,000	Natl Rural Utilities 7.200% Due 10-01-15	119.23	357,705.00	100.25	300,743.70	0.4	21,600.00	7.2
140,000	Carolina Power & Light 5.250% Due 12-15-15	100.44	140,616.00	101.45	142,026.92	0.2	7,350.00	5.2
110,000	SBC Comm Inc. 5.625% Due 06-15-16	101.37	111,508.10	100.45	110,493.02	0.1	6,187.50	5.6
500,000	Verizon Communications 8.750% Due 11-01-18	99.70	498,520.00	117.32	586,611.00	0.8	43,750.00	7.5
500,000	South Carolina E&G 5.300% Due 05-15-33	105.04	525,222.50	94.92	474,618.50	0.6	26,500.00	5.6
500,000	Comcast Corp. 6.450% Due 03-15-37 Accrued Interest	101.42	507,095.00	99.51	497,558.50	0.6	32,250.00	6.5
			3,256,991.70		3,302,266.43	4.3	196,413.50	6.0

FINANCIAL BONDS

140,000	Gen. Elec. Cap. Corp. 4.875% Due 10-21-10	102.21	143,089.80	101.29	141,811.04	0.2	6,825.00	4.8
500,000	National City Bank 6.250% Due 03-15-11	100.00	500,000.00	96.05	480,259.00	0.6	31,250.00	6.5
500,000	HSBC Finance 6.375% Due 11-15-12	115.58	577,912.50	97.84	489,190.00	0.6	31,875.00	6.5
500,000	Progressive Corp. 7.000% Due 10-01-13	94.84	474,220.00	97.87	489,331.00	0.6	35,000.00	7.2
1,000,000	Principal Life Inc. FDG 5.100% Due 04-15-14	96.71	967,130.00	93.36	933,619.00	1.2	51,000.00	5.5
700,000	JP Morgan 5.700% Due 11-15-14	98.58	690,032.00	97.63	683,412.80	0.9	39,900.00	5.8

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
110,000	Gen. Elec. Cap. Corp. 5.400% Due 02-15-17	101.59	111,750.10	99.53	109,483.77	0.1	5,940.00	5.4
500,000	Hartford Financial 5.375% Due 03-15-17	97.04	485,225.00	72.85	364,235.00	0.5	26,875.00	7.4
500,000	Lehman Bros. Holdings 6.500% Due 07-19-17	98.70	493,480.00	0.01	50.00	0.0	32,500.00	65,000.0
	Accrued Interest				62,936.08	0.1		
			4,442,839.40		3,754,327.69	4.8	261,165.00	7.1
INDUSTRIAL BONDS								
500,000	Whitman Corp 6.375% Due 05-01-09	112.74	563,715.00	100.48	502,379.00	0.6	31,875.00	6.3
142,000	United Technologies 4.375% Due 05-01-10	100.76	143,076.40	100.80	143,135.15	0.2	6,212.50	4.3
500,000	Avon Products 5.125% Due 01-15-11	97.96	489,820.00	98.62	493,106.00	0.6	25,625.00	5.2
60,000	IBM Corp. 4.950% Due 03-22-11	101.89	61,134.00	103.62	62,172.06	0.1	2,970.00	4.8
375,000	Estee Lauder Cos Inc. 6.000% Due 01-15-12	110.31	413,658.75	98.11	367,914.75	0.5	22,500.00	6.1
140,000	Pepsico Inc. 5.150% Due 05-15-12	103.96	145,539.80	103.24	144,530.12	0.2	7,210.00	5.0
142,000	GE Company 5.000% Due 02-01-13	101.48	144,108.70	101.13	143,603.32	0.2	7,100.00	4.9
500,000	Wal-Mart Stores 7.250% Due 06-01-13	105.58	527,925.00	112.60	563,025.00	0.7	36,250.00	6.4
100,000	Schering-Plough 5.300% Due 12-01-13	101.31	101,313.00	100.73	100,731.20	0.1	5,300.00	5.3
500,000	Deere & Company 6.950% Due 04-25-14	107.33	536,670.00	106.02	530,108.50	0.7	34,750.00	6.6
645,000	Cisco Systems 5.500% Due 02-22-16	98.29	633,966.00	105.92	683,168.52	0.9	35,475.00	5.2
134,000	Abbott Labs 5.875% Due 05-15-16	104.44	139,944.20	108.31	145,130.98	0.2	7,872.50	5.4
500,000	Anheuser Busch 5.050% Due 10-15-16	100.18	500,918.63	90.09	450,465.50	0.6	25,250.00	5.6
300,000	Costco Companies 5.500% Due 03-15-17	101.60	304,794.00	106.29	318,864.90	0.4	16,500.00	5.2

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
450,000	Coca-Cola Enterprises 7.125% Due 08-01-17	118.68	534,051.00	108.35	487,581.30	0.6	32,062.50	6.6
1,000,000	J.C. Penney 5.750% Due 02-15-18	96.74	967,400.00	66.38	663,803.00	0.9	57,500.00	8.7
550,000	Kerr-McGee Corp 6.950% Due 07-01-24	104.28	573,556.50	87.68	482,266.40	0.6	38,225.00	7.9
500,000	IBM Corp. 7.000% Due 10-30-25	112.65	563,240.00	117.16	585,793.00	0.8	35,000.00	6.0
323,000	Procter & Gamble 5.550% Due 03-05-37	100.28	323,901.20	111.01	358,570.05	0.5	17,926.50	5.0
	Accrued Interest				132,779.02	0.2		
			7,668,732.18		7,359,127.77	9.5	445,604.00	6.2
	CORPORATE BONDS Total		15,368,563.28		14,415,721.90	18.6	903,182.50	6.4
CASH & EQUIVALENTS								
	Dividend Accrual		113,055.05		113,055.05	0.1	0.00	0.0
	Inventor MMF		1,487,984.21		1,487,984.21	1.9	46,127.51	3.1
	Investor MMF		122.25		122.25	0.0	3.79	3.1
	MMF Interest Accrual		1,090.74		1,090.74	0.0	38.18	3.5
	CASH & EQUIVALENTS Total		1,602,252.25		1,602,252.25	2.1	46,169.48	2.9
TOTAL PORTFOLIO			83,239,520.57		77,449,786.19	100.0	2,428,254.68	3.1

After the Collapse, Guarded Hope for '09

With the Dow's 33.8% Decline in the Record Books, Investors View Bullish Calls Skeptically

By E. S. Browning, Wall Street Journal

After the U.S. stock market's third-worst year in more than a century, many investors are angry and confused. They are hoping for a turnaround in 2009, but considering the pain that has continued for more than a year, they are reluctant to bet on it.

At a time when some stock prognosticators are telling people that stocks are cheap and it is time to buy, many investors have developed a "show me" attitude. Their most basic beliefs about stocks have been shaken, notably the idea that buying and holding is smart and that stocks will outgain other assets over time.

Over the past 10 years, stocks as a broad group are down, and their performance trails that of almost every other asset class, including government bonds, gold and even real estate, according to data from Morningstar Inc.

So while people hear the advice that it is time to buy stocks, they have trouble following it. In fact, professional and amateur investors alike are reluctant to buy anything that smacks of risk.

That helps explain the current demand for the investment perceived as the world's safest, U.S. Treasury bonds, and the steady withdrawal of money from stock-focused mutual funds.

The problem isn't just that major institutions including Bear Stearns, American International Group and Fannie Mae collapsed and had to be rescued. It isn't just that the Dow Jones Industrial Average finished the year at 8776.39, down 4,488.43 points or 33.8% in 2008 and 38% below its October 2007 record.

It was the Dow's worst year since 1931. The broad Standard & Poor's 500-stock index did even worse, down 38.5% for 2008, its worst year since 1937.

A big part of the problem is that each government effort to plug the market's holes has seemed inadequate, and both stock rallies and investor hopes have repeatedly run out of steam. Given that the economy could be weak for months to come, that financial institutions and ordinary people alike are borrowing less and holding fewer risky securities, and that the banking system and housing market show little sign of returning to normal, it is little wonder that stocks are struggling.

At some point, experts agree, the stock market will hit bottom and move higher. Some people believe it happened in November, when stocks



Stephen Webster

hit multiyear lows and then began an upswing. Others think stocks will sag again and won't bottom out until later, perhaps some time in 2009.

No matter what they believe, few people want to make big bets right now.

Last month, Cleveland's Key Private Bank, an arm of Key Corp, recommended that clients move about 5% of their portfolios out of their cash reserve and back into stocks. But the bank continued to suggest that clients keep 10% of their funds in cash, to protect themselves in case the market pulls back again. In ordinary times, clients would be urged to hold little or no cash.

Bruce McCain, head of the private bank's investment-strategy team, says he and his colleagues are hoping that the market is bottoming out, but they aren't sure. "We still see some potential for lower levels," Mr. McCain says.

The past year saw more painful milestones than most investors could digest. The Nasdaq Composite Index fell 40.5%, the worst percentage decline in its 38-year history, surpassing even its 39.3% plunge in 2000 after the tech-stock bubble burst.

Volatility was startling. In October, the Dow enjoyed two of the six biggest one-day percentage gains in its 113-year history, and then gave back all the

gains and fell to new lows. Four of the 20 biggest daily percentage declines in Dow history happened in the last four months of 2008.

Many analysts consider stock prices cheaper than usual now, but some fear they will become cheaper still. One way to evaluate whether a stock or index is cheap is to measure its price against a 10-year average of corporate profits, which smoothes out short-term earnings fluctuations.

Measured that way, stock prices are below-average today, but they only just have fallen below average after being above-average for 18 years, according to data tracked by Yale professor Robert Shiller.

Theoretically, price-to-earnings ratios ought to spend as much time below average as they do above-average, which suggests that P/E ratios may not pop higher right away.

After the Dow's miserable year, it makes sense that stocks are due for a good year to balance things, but that hasn't always happened in the past. The Dow's worst year ever was 1931, when the blue-chip average fell 53%. In the next year, 1932, the Dow fell again, by 23%. It wasn't until 1933 that it recovered, rising 67%. The index's second-worst year was 1907, when it declined 38%. The year after that, it did rebound, by 46%.

In other words, stocks do rebound sharply after a bad fall, but the trick is figuring out when they are done falling. Whether stocks indeed turn up in 2009, as is widely expected, depends in large part on how successful policy makers are in stabilizing the economy and credit markets, and getting banks to lend again.

It is a market truism that investors buy or sell stocks based on what they expect in the future, rather than on what has happened in the immediate past. Because of that, investors typically spend a lot of time trying to predict corporate profits, interest rates, inflation and the like.

But this year isn't likely to be a normal year, and investors aren't worrying about the normal things.

They already know that corporate profits are likely to keep falling amid a recession and the Fed has indicated it will keep its target overnight interest rate near zero. They aren't worried much about inflation; the big worry is price deflation, a more insidious danger because businesses and consumers delay spending as they anticipate still lower prices. That hasn't happened in any serious way since the 1930s.

"Stocks are likely to struggle in the first half of 2009," warned John Praveen, chief investment strategist at Prudential International Investment Advisors, in his year-end report.

He forecast continued troubles in the credit markets and continuing investor risk-aversion. He recommended that people remain neutral on the stock market in the first half of the year, and be ready to boost investment levels if, as he expects, shares show signs of rebounding at midyear.

Investors are trying to anticipate something they usually take for granted: the ability of the financial system to function normally. That means figuring out whether banks and other credit-market participants will lend money and buy the corporate debt and asset-backed securities that permit credit markets to operate.

As the year ended, with the Fed pumping billions of dollars into credit markets, there were initial signs of thawing in things like interbank lending and demand for the highest grade of corporate bonds and other securities. But appetite for riskier debt, such as junk bonds and asset-backed securities, remained far from what it was one year ago.

Until they see signs that banks are lending again more broadly, and that companies, too, are able to take risks by borrowing and investing, stock investors could remain cautious.

One result of all this is that advice from stock prognosticators has been all over the map.

Steve Leuthold, the usually skeptical chairman of Minneapolis money-management and research firm Leuthold Group, was almost gushing in his enthusiasm for stocks, any and all.

"Don't spend too much time worrying about what to buy," he wrote in a December report. "Most sectors, groups, and stocks are down big and at attractive valuations."

But Larry Adam, U.S. chief investment strategist at Deutsche Bank Private Wealth Management, told clients that while he sees hope for a rebound in 2009, he is reluctant to jump back in.

"We believe the equity markets are poised to rebound in the course of 2009," he wrote. "However, in the near-term, caution is warranted," as hedge funds, banks and consumers reduce their borrowing and the economy remains weak, he added.

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